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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of

Access Charge Reform

Price Cap Performance Review for Local
Exchange Carriers

Interexchange Carrier Purchases of Switched
Access Services Offered by Competitive Local
Exchange Carriers

Petition of U S West Communications, Inc.
for Forbearance from Regulation as a Dominant
Carrier in the Phoenix, Arizona MSA

CC Docket No. 96-262

CC Docket No. 94-1

CCB/CPD File No. 98-63

CC Docket No. 98-157

COMMENTS
of the
GENERAL SERVICES ADMINISTRATION

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October 29, 1999

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Summary

GSA addresses proposals to extend additional flexibility to local exchange carriers under price cap regulation as competition continues to increase.

At the outset, GSA supports geographical deaveraging for common line rate elements to match cost variations. GSA explains that it is important for pricing zones to conform with cost patterns, so that the Commission's rules concerning geographical deaveraging of unbundled network element charges should provide a useful model for deaveraging access charges. However, any deaveraging structure must continue to recognize distinctions between fixed and usage-sensitive costs.

Second, GSA addresses triggers for increasing pricing and tariffing flexibility for common line and usage-sensitive rate elements. GSA recommends that Phase II triggers for these rate elements should have the same structure as Phase I triggers. However, Phase II triggers should be set at a higher level to reflect the greater regulatory flexibility accorded to carriers in that phase.

Third, GSA addresses the Commission's proposal to employ a capacity-based charge to recover the variable cost of end office switching. GSA urges the Commission to employ a capacity-based structure to recover the costs of resources required to accommodate peak demands. Thus, if comments in response to the Notice confirm earlier assertions that most end office switching costs are peak-sensitive, GSA supports this change in rate structure.

Finally, GSA addresses an observation by the Commission that differences in the growth rates for different types of access facilities (business multi-line vs. business single line and primary residence lines) can increase or reduce cross-subsidies by business multi-line users over time. GSA demonstrates that business multi-lines are increasing faster than the other types of access facility. Therefore, cross-subsidies by business users that are inherent in the access charge system are expanding even more. GSA urges the Commission to take steps to reduce or totally eliminate increases in these cross-subsidies in the future.

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**COMMENTS
of the
GENERAL SERVICES ADMINISTRATION**

The General Services Administration ("GSA") submits these Comments on behalf of the customer interests of all Federal Executive Agencies ("FEAs") in response to the Fifth Report and Order and Further Notice of Proposed Rulemaking ("Notice") released on August 27, 1999. The Notice seeks comments and replies on issues concerning changes in rules for the provision of interstate access services by incumbent local exchange carriers ("LECs") subject to price cap regulation.

I. INTRODUCTION

Pursuant to Section 201(a)(4) of the Federal Property and Administrative Services Act of 1949, as amended, 40 U.S.C. 481(a)(4), GSA is vested with the responsibility to represent the customer interests of the FEAs before Federal and state

regulatory agencies. From their perspective as end users, the FEAs have consistently supported the Commission's efforts to bring the benefits of competitive markets to consumers of all telecommunications services.

In the Notice, the Commission adopted many changes in the rules concerning tariffs and rate structures of price cap LECs.¹ To extend the process of granting regulatory flexibility when it is justified, the Commission requests recommendations on potential additions to these rule changes.² The FEAs have a vital interest in these proceedings because some of the changes proposed in the Notice will help to accelerate the development of competition and advance other policies embodied in the Telecommunications Act of 1996.³

In the *Access Charge Reform Order* released in 1997, the Commission stated that it would rely primarily on a market-based approach to transition interstate access charges towards the costs of providing access services.⁴ In the Notice, the Commission provides detailed rules for implementing this market-based approach. Under the proposed rules, incumbent LECs would receive greater pricing flexibility for interstate services as more extensive competition develops.⁵

The Notice seeks inputs from parties on issues concerning potential extensions and modifications to its new rules. In these Comments, GSA provides its recommendations as an end user on issues concerning geographic deaveraging for switched access services, triggers for increasing regulatory flexibility for common line

¹ Notice, para. 1

² *Id.*

³ *Id.*, citing Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Stat. 56, *codified at* 47 U.S.C. §§ 151 *et seq.* ("Telecommunications Act").

⁴ Notice, para. 2, citing In the Matter of Access Charge Reform, CC Docket No. 96-262 *et al.*, First Report and Order, released May 16, 1997 ("*Access Charge Reform Order*").

⁵ Notice, para. 2.

and traffic sensitive rate elements, recovery of peak-related switching costs through a capacity charge, and modifications in the access charge structure to prevent increases in the subsidies resulting from disparities in the presubscribed interexchange carrier charges ("PICCs") for various types of access lines.

II. INCUMBENT LECs SHOULD BE PERMITTED TO DEAVERAGE SWITCHED ACCESS CHARGES WITHIN STUDY AREAS.

A. Carriers should be granted geographical pricing flexibility if their charges for unbundled network elements are deaveraged.

When the Commission modified the system of interstate access charges for price cap LECs in 1997, it prescribed a common line rate structure for price cap LECs that was designed to align cost recovery with the manner in which costs are incurred.⁶ At the present time, incumbent LECs recover their interstate common line costs through three rate elements:

- subscriber line charges ("SLCs") levied on end users as a monthly charge for each line;
- presubscribed interexchange carrier charges ("PICCs") levied on interexchange carriers ("IXCs") as a monthly charge for each presubscribed line; and
- carrier common line charges ("CCLCs"), levied on IXCs based on the number of minutes of traffic originated or terminated on the LEC's facilities.

The Commission's rules require incumbent LECs to determine these charges based on cost averages for each study area.⁷

The Commission has previously requested comments on permitting incumbent LECs to deaverage CCLCs if they could demonstrate that local markets were

⁶ Access Charge Reform Order, para. 36.

⁷ Notice, para. 190.

competitive to a specified degree.⁸ In the Notice, the Commission seeks comments on whether to permit LECs to deaverage common line rate elements without a competitive showing.⁹ In addition, the Notice invites parties who advocate such deaveraging to identify any specific conditions, such as prior deaveraging of unbundled network elements ("UNEs"), that they believe should be imposed.¹⁰

GSA supports geographical deaveraging of common line rate elements to the extent that costs vary significantly within a study area. Indeed, since most study areas are coextensive with state boundaries, a substantial part of access costs — the costs of the access line connecting the subscriber with the incumbent carrier's wire center — will vary significantly within a study area.

The Commission has established a framework for measuring cost variations within a study area which it uses as the standard in authorizing geographical deaveraging of charges for UNEs.¹¹ GSA recommends that the same standard be employed for access charge rate elements.

It is logical to link geographical deaveraging of common line rate elements with geographical deaveraging of UNEs. In fact, the Commission observes that if UNEs are deaveraged, a continuing requirement for the incumbent LEC to charge averaged access rates may prevent that carrier from responding to competition from other LECs in low-cost areas.¹²

To allow incumbent LECs to compete to an equal basis with competitive LECs, GSA urges the Commission to permit the incumbent carriers to geographically

⁸ *Id.*, para. 191.

⁹ *Id.*

¹⁰ *Id.*, para. 192.

¹¹ *Id.*

¹² *Id.*

deaverage their charges for all common line rate elements without specific evidence of the extent of competition for access services. In establishing area boundaries, the only necessary condition is that pricing zones for common line rate elements conform with cost patterns, for which the Commission's rules concerning geographical deaveraging of UNE charges provide a convenient and useful model. Thus, any carrier with geographical deaveraging of charges for UNEs should be granted the same flexibility using the same zones for all common line rate elements.

B. Deaveraging procedures should recognize distinctions between recovery of fixed and variable costs.

Interstate SLCs and PICCs are determined by the common line revenue requirement in each study area. The ceilings or "caps" for these charges vary significantly by type of line — primary residence, non-primary residence, business single line and business multi-line. For example, the SLC ceiling is \$3.50 for primary residence lines and business single lines, but the ceiling is \$9.20, for business multi-lines.¹³ Similarly, multi-line PICC ceilings have always been much greater than PICC ceilings for other types of lines. The current PICC ceilings are \$1.04 for residence and business single lines, \$2.53 for non-primary residence lines, and \$4.31 for business multi-lines.¹⁴

Under the rules concerning recovery of interstate revenue requirements, incumbent LECs recover their interstate-allocated common line costs initially through SLCs (subject to caps), then through PICCs (subject to caps), and finally through CCLCs. The Commission requests comments on whether this framework for cost recovery should be preserved if geographical deaveraging is permitted.¹⁵ For

¹³ In the Matter of Low Volume Long Distance Users, CC Docket No. 99-249, Notice, para. 8.

¹⁴ *Id.*, para. 9.

¹⁵ Notice, para. 194.

example, the Commission might prohibit carriers from recovering foregone SLC revenue from the CCLC, or prohibit increases in the SLC for one type of line to support a reduced SLC for other consumers.¹⁶ Also, the Commission seeks recommendations on whether deaveraging should be permitted only within the overall revenue obtained with the specific type of line (*e.g.* primary residence, business single line *etc.*), or the revenue obtained with each specific charge (SLC, PICC, or CCLC).¹⁷

In addressing issues concerning limits on access charges with geographical deaveraging, GSA urges the Commission to recognize the importance of costs as the factor for determining the appropriate structure of access charges. As noted previously, the Commission has recognized that cost variations are the only appropriate basis for geographically deaveraging UNE charges. Similarly, the underlying structure of costs is the relevant factor in determining caps on the respective charges and “cross-subsidies” among access rate elements.

The interstate SLCs and PICCs are flat-rated charges which should be employed to recover all common line costs. Thus, no part of the revenue requirement that is appropriately recovered with SLC and PICC charges should be transferred to the CCLC, regardless of the geographical deaveraging employed by the LEC.

Moreover, as GSA recently explained in its Comments in the proceeding concerning “low-volume” long distance users, interstate SLCs and PICCs should be combined, with the total non-traffic sensitive access revenue requirement billed directly by LECs to end users.¹⁸ Also, as GSA explained in those Comments, the caps for SLCs, PICCs, or the combined rate element should not differ among these types of

¹⁶ *Id.*

¹⁷ *Id.*

¹⁸ In the Matter of Low Volume Long Distance Users, CC Docket No. 99-249, Comments of GSA, September 22, 1999, p. 8.

lines.¹⁹ Cost differences do not justify differentiating SLCs and PICCs, nor do they justify disparate rate caps for various groups of access lines, again regardless of the extent of geographical deaveraging employed by the LEC.

The structure of access charges should permit deaveraged charges to reflect geographical cost variations and should maintain distinctions between the recovery of fixed and usage-sensitive costs. Additional constraints that do not reflect cost structures will not be helpful in meeting the Commission's goal of aligning access charges with costs in order to provide a level competitive environment for all carriers and consumers.

III. PHASE II TRIGGERS FOR COMMON LINE AND TRAFFIC SENSITIVE RATE ELEMENTS SHOULD BE SIMILAR TO PHASE I TRIGGERS, BUT REFLECT A GREATER LEVEL OF COMPETITION.

The Notice establishes a two-phase framework for granting additional pricing flexibility to LECs under price cap regulation:

- Phase I: Permits the LECs to offer contract tariffs and volume and term discounts, but requires them to maintain their generally available price-cap constrained tariffs; and
- Phase II: Permits the LECs to offer some services free of the Commission's rate structure and price cap rules, and allows them to file tariffs on one day's notice.²⁰

For the various interstate services, the Commission seeks to adopt specific "triggers" for the increased regulatory flexibility in each phase.

For common line and traffic sensitive services, the Commission adopted the Phase I trigger that competitors collectively must be offering services over their own facilities to 15 percent of the incumbent LEC's customer locations in a metropolitan

¹⁹ *Id.*

²⁰ Notice, paras. 77-157.

area.²¹ The Notice seeks comments on whether the Commission should predicate Phase II relief for these services on a similar showing that competitors offer these services over their own facilities, but adopt a threshold greater than 15 percent.²² The Notice also requests parties suggesting a greater threshold to recommend a specific threshold value.²³

GSA urges the Commission to adopt a significantly higher trigger for Phase II regulation of common and traffic sensitive services because Phase II conditions provide much greater pricing flexibility. The Commission recognized this relationship in setting triggers for dedicated transport and special access services. For those services, Commission established a Phase I trigger that competitors have collocated and use competitive transport in 15 percent of a price cap LEC's wire centers, or wire centers accounting for 30 percent of the price cap LEC's revenues from those services in the area.²⁴ The Commission adopted a similar structure for Phase II, but recognized the greater flexibility in this phase by prescribing thresholds of 50 percent and 65 percent, respectively.²⁵

GSA suggests that a similar relationship between Phase II and Phase I triggers is appropriate for common line and traffic sensitive services as for the dedicated and special access rate elements. Thus, since the Commission has adopted a Phase I trigger that 15 percent of customer location receive service over competitors' facilities, GSA recommends that 50 percent of customer locations receiving access over competitors' facilities is the appropriate trigger for Phase II.

²¹ *Id.*, para. 201.

²² *Id.*

²³ *Id.*

²⁴ *Id.*, para. 93.

²⁵ *Id.*, para. 149.

IV. PEAK-RELATED SWITCHING COSTS SHOULD BE RECOVERED THROUGH A CAPACITY CHARGE.

The per-minute rates for local switching in Part 69 of the rules are based on the Commission's finding that local switching services were traffic-sensitive.²⁶ When the Commission reviewed this procedure in the *Access Charge Reform Order*, it acknowledged that the local switching costs associated with line cards and trunk ports are non-traffic-sensitive, and revised the access charge structure to require incumbent LECs to recover those costs through non-traffic-sensitive rates.²⁷ In the Notice, the Commission solicits comments on replacing the per-minute charge with a capacity-based charge.²⁸ A capacity charge would recover the usage-sensitive costs on the basis of the number of trunks connected to the LEC's end office switch.²⁹

GSA urges the Commission to employ a capacity-based structure to recover the costs of the resources required to accommodate usage at the peak period. The Notice cites comments by the Washington Utilities and Transportation Commission submitted in CC Docket No. 96-98, which claimed that most "variable" local switching costs are driven by peak demand.³⁰ If the comments submitted in response to the instant Notice confirm this claim, GSA recommends a capacity-based structure as the most economically correct pricing mechanism.

In addition to matching the structure of costs, the Commission observes that a capacity-based structure will offer additional benefits.³¹ For example, IXC's faced with capacity-based charges would have an additional incentive to develop off-peak

²⁶ Notice, para. 209, citing 47 C.F.R. § 69.106.

²⁷ Notice, para. 209, citing *Access Charge Reform Order*, at 16035-36.

²⁸ Notice, para. 207.

²⁹ *Id.*

³⁰ *Id.*, para. 210.

³¹ *Id.*

pricing plans that would encourage users to make more or longer off-peak calls, which in turn would encourage more efficient use of the public switched network.

V. THE ACCESS CHARGE SYSTEM SHOULD BE MODIFIED TO PREVENT TOTALLY UNJUSTIFIED INCREASES IN THE SUBSIDIES FURNISHED BY USERS OF BUSINESS MULTI-LINES.

The PICCs on business single lines and primary residence lines were established so that the sum of the PICC and SLC applicable to each was less than the average revenue per-line allowed under the price cap rules.³² The Commission specified that the PICCs for business single lines and primary residence lines would increase until the sum of the PICC and SLC was equal to the maximum permitted revenue per-line. During this period, the Commission specified that price cap LECs could recover their "shortfall" through PICCs on business multi-lines.³³ As a result, business single lines and primary residence lines receive an explicit subsidy from business multi-lines.³⁴

In the Notice, the Commission observes that the increase in the amount received through the PICC subsidy ideally should be equivalent to the growth rate of primary residence and business single lines.³⁵ The balance is disturbed, however, if the relationship between the total number of lines providing the explicit subsidy and the number of lines receiving the subsidy changes over time.³⁶ Specifically, the subsidy increases if the number of business multi-lines increases faster than the

³² Notice, para. 230.

³³ *Id.*

³⁴ *Id.*

³⁵ *Id.*, para. 231.

³⁶ *Id.*

number of business single lines and primary residence lines.³⁷ Conversely, the subsidy fails to keep up with line growth if multi-line business lines experience less growth than the subsidized types of lines.³⁸

The changes in the system of interstate access charges prescribed in 1997 were intended to align cost recovery with the manner in which costs are incurred.³⁹ Nevertheless, while there are no differences in the costs of access facilities, business multi-lines have always carried more than a proportionate share of the burden in meeting the interstate revenue requirement.

GSA has explained in previous Comments that a reduction in the multi-line PICC is warranted.⁴⁰ The PICCs vary among types of lines with business multi-lines having the highest caps and the highest actual rates for all price cap LECs.⁴¹ There is no cost basis for these differences. In fact, larger business, who are multi-line customers, are usually located in densely developed areas where the unit costs of access are less. Thus, an immediate reduction in multi-line PICCs will help to eliminate an unjustified disparity.

However, if the Commission does not address these disparities through changes in the rules concerning the PICC revenue requirement or the PICC caps for various types of lines, as a minimum step the Commission should act to prevent the level of cross-subsidy from increasing because of changes in relative line counts.

³⁷ *Id.*

³⁸ *Id.*

³⁹ *Access Charge Reform Order*, para. 36.

⁴⁰ In the Matter of Federal-State Joint Board on Universal Service and Access Charge Reform, CC Docket Nos. 96-45 and 96-262, Comments of GSA, July 23, 1999, pp. 13-14.

⁴¹ Monitoring Report Prepared by the Federal and State Staff for the Federal-State Joint Board, December 1998 ("Monitoring Report"), Table 7.14. The figures in the text above are for all LECs under the Commission's jurisdiction. The corresponding averages for all price cap LECs are \$2.51 for business multi-lines, \$1.38 for non-primary residence lines, and \$0.53 for primary residence and business single lines.

Data in the *Statistics of Communications Common Carriers* published annually by the Commission's Industry Analysis Division shows that the number of business multi-lines is increasing at a far greater rate than the numbers of other types of lines. For example, the reports for the respective years show that all LECs had 43.6 million business multi-lines on December 31, 1996 and 50.3 million business multi-lines on December 31, 1998.⁴² Thus, over these two years the number of business multi-lines increased by 15.4 percent. In the same two year period, the number of business single lines declined by 8.4 percent, from 4.79 million in 1996 to 4.39 million in 1998. The reports provide residence line totals, but they do not give separate figures for primary and non-primary residence lines. However, the total number of residence lines increased from 104.3 million to 112.0 million, an increase of only 7.4 percent over the two-year period.⁴³ Since it would be expected that non-primary residence lines are increasing more rapidly than primary residence lines, the increase in primary residence lines was probably less than 7.3 percent. Thus, business multi-lines, which are providing the subsidy, are increasing more than twice as rapidly as primary residence and business single lines, which are receiving the subsidy.

From GSA's perspective as an end user, this condition is causing a substantial and unplanned growth in the cross-subsidy under the existing price cap rules. The Notice suggests a procedure for adjusting the formula in Section 61.46 of the Commission's rules to ameliorate the cross-subsidy on a going-forward basis. GSA

⁴² *Statistics of Communications Common Carriers*, 1996 and 1998 editions, Table 2.19.

⁴³ The *Statistics of Communications Common Carriers* do not provide corresponding data for LECs under price cap regulation. However, the reports provide data for Regional Bell Operating Companies ("RBOCs") which comprise the great majority (on a line basis) of the price cap group. For RBOCs alone, GSA's analysis indicates that business multi-lines increased by 14.7 percent, business single lines declined by 10.4 percent, and all residence lines increased by 7.5 percent. These figures are comparable to those for all LECs, and lead to the same conclusion — that business multi-lines are increasing faster than any other types of access facility, and are therefore responsible for an increasing cross-subsidy of the other types of lines.

urges the Commission to make this revision or a similar adjustment with the same objective. This charge should be made expeditiously, so that the structure of access charges is maintained as nearly in balance with costs as possible, as the Commission intended in initiating access charge reform.

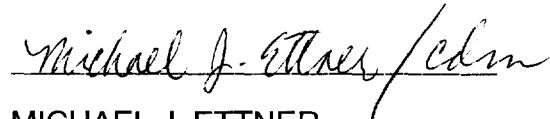
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VI. CONCLUSION

As a major user of telecommunications services, GSA urges the Commission to implement the recommendations set forth in these Comments.

Respectfully submitted,

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A handwritten signature in cursive script, reading "Michael J. Ettner /cdm", written over a horizontal line.

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October 29, 1999

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